

Title of Project: Research and develop marketing of certified sustainable wood products for the Sustainable Woods Cooperative.

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Introduction and Executive Summary

The Sustainable Woods Cooperative is extremely satisfied with the results of its marketing research of certified wood products. We not only accomplished establishing a pricing strategy based on actual costs of operation, but we also determined that the market for certified wood, particularly in southern Wisconsin, is stronger than what was anticipated when the research project started.

We wish to extend our thanks to the Wisconsin Department of Agriculture, Trade and Consumer Protection, and Bud Scholts and Mike Bandli for their interest and support of this research effort which made it possible for SWC to identify basic marketing information, establish a marketing framework, and collect information for other “certified wood” cooperatives to utilize.

This report includes summaries of our findings, and the marketing strategy framework for SWC and other small wood cooperatives. This report is presented in the following manner:

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Report of Conclusions

With successful completion of this research project through funding by the Agricultural Diversification and Development Grant, we concluded:

1. The cooperative can be successful by marketing wood products as “certified” by networking with building professionals who have shared values of resource conservation and environmental protection.
2. The cooperative can generate and collect strong returns through value-added processing. The first step that must be done in order to increase margins is to kiln-dry lumber. The sales of kiln-dried lumber, at a minimum, can provide the basis for sound cash flow to capitalize an expanded processing operation.
3. The cooperative will have a strong, growing and captive market for the sale of certified wood by targeting residential and commercial green builders.
4. The cooperative’s greatest potential for generating a high value-added return will be through on-site retail sales and through the establishment of marketing relationships with local and regional architects, builders and secondary manufacturers.
5. SWC will enter the market by offering certified wood flooring, paneling, trim and lumber to specified target markets, mainly the green building industry which is showing stronger than expected interest in using sustainable wood products.
6. Consumers/users of certified wood are very interested in the cooperative’s overall effort to help private landowners protect and improve the health and value of their woods.
7. SWC can command an added margin for “certified wood,” but still must remain price competitive with non-certified sources. That margin can be more realized through the sound business management and cost control of the cooperative.

Key Marketing Questions and Observations

We made these conclusions by answering a series of marketing questions through our pilot projects, research with potential customers, research of certified wood market, and an overview of the wood products industry.

How is the “buying” decision made on certified wood for commercial construction, home remodelers, hobby and furniture crafts, and other market segments?

Primarily we are finding these users are already inclined toward “green” products. The Green Built Home program has requirements and options for use of certified wood. We do know these users are not aware of sources of certified wood, and because there are is no local source of certified wood.

Who generally makes decisions to go with certified wood? Role of consumer?

Typically, the ultimate consumers are those who have heightened “green” values, and who are pioneers in this market. Our research indicates the decision makers are the designers in green construction projects. The residential and commercial construction projects they plan and design include a variety of green construction elements, including use of certified wood. The initial development of green building standards was based on energy and resource conservation. The Green Built Home Program has a checklist for qualifying for a green home that includes materials selection that fit our operation and marketing such as:

- Use of **hard surface floors such as wood**, concrete, tile or linoleum (50% of floor area).
- **Hardwood from certified sustainably managed forests for doors, cabinetry and trim.**
- Decks and other outdoor structures constructed with sustainable, low-toxicity materials: reused wood, **certified sustainable yield wood**, ACO treated wood, or recycled plastic/ wood fiber composites (no CCA chromated copper arsenate lumber).

To qualify for a green home, the project must meet Basic Requirements, and then also obtain additional points for use of materials. A description of the Green Home Program can be obtained at this web site: <http://www.wi-ei.org/GBH/chklist.htm>.

For commercial design and construction, the U.S. Green Building Council has its LEED Rating System (Leadership in Energy and Environmental Design) that provides points for two areas that are applicable to SWC:

- **Local/Regional Markets** by using building products that are manufactured locally, reducing the environmental impacts resulting from transportation, and supporting the local economy. Get points by specifying a minimum of 20% or 50% of building materials that are extracted, harvested or recovered within 500 miles.
- **Certified Wood** by encouraging environmentally responsible forest management by using a minimum of 50% of wood-based materials certified by FSC for wood building components.

The LEED rating system can be obtained at this web site: <http://www.usgbc.org/>

How can a small certified wood cooperative reach the people who make the decisions to get the proper opportunity for sales?

The most beneficial effort a small cooperative can take is through a network of its own members (as customers and promoters of products) and like-minded professionals in the building trade. We are members of the Wisconsin Green Building Alliance, which has more than 200 members comprised of designers, architects, builders and suppliers, and will be our target market. Joining a local builders association will also build a network of contacts and markets. SWC will join the Madison Area Home Builders Association to become a planning partner for its annual Parade of Homes that is starting to feature green construction.

Cooperatives should also build a network of other professionals and associations who share the environmental enhancement value such as local Nature Conservancy or Sierra Club chapters.

Is there a price premium for certified wood products at present? If so, how much and for how long? What types of wood?

The Market Profile for Certified Forest Products and Market Segmentation for Certified Wood Products narratives provide additional information on the certified forest markets sector and opportunity.

“Market Profile for Certified Forest Products”

The market for certified forest products currently represents a small niche market in the overall U.S. marketplace for forest products. Partly because the industry is so young, it is not possible to obtain sales data on certified forest products. Most observers indicate that they see the market for such products growing, although they are unable to quantify the current growth rate. (Certified Forest Product Council).

Only 0.7% of U.S. forest land is currently certified, although the number of certified acres more than doubled in 1997. The amount of certified product that currently moves through the marketplace is unknown. Most certified wood is sold as uncertified through the mainstream market at this time, due to lack of demand (Certified Forest Product Council).

Numerous studies show that in the U.S. a significant percentage of consumers prefer forest products that have been produced in an environmentally responsible way (SBN Journal). A report by the Sustainable Forestry Working Group, *Marketing Products from Sustainably Managed Forests: An Emerging Opportunity*, indicates that the question is not whether, but “how fast and in which markets sustainable forest management will become an important market variable.” Some studies show a willingness among consumers to pay more for certified wood products, although other evidence indicates that few consumers actually do so (Forsyth, SBN Journal).

Although certification may not always provide higher prices for producers, it may have other marketplace advantages, especially providing access to new markets.

“Market Segmentation for Certified Wood Products”

The Certified Forest Products Council divides the U.S. market for certified forest products into several segments, including: landowners, foresters, loggers; sawmills (primary manufacturers); value-added (secondary) manufacturers; wholesale distributors; retail distributors; architects; builders (commercial, residential, remodeling); other businesses/ government agencies; and consumers (homeowners and do-it-yourselfers). Each of these links in the marketing chain plays a unique role, yet the Council believes that none are very knowledgeable about certified wood at this point in time.

SWC believes it can build in its own premiums for certified wood through the profitable operation of the cooperative. SWC will have to remain price competitive on its wood products, but prices of competitors vary greatly, so it will be difficult to distinguish and segment that premium from our pricing.

All types of wood will be included to capture a premium, but again that will come through a long-term marketing approach that clearly segments SWC products from other sources of products.

Who are or will be our customers?

Residential and commercial Green Building professionals: These are primary decision makers with strong shared value of environmental protection and use of products that support resource management. We have an initial target of 100 members of the Wisconsin Green Building Alliance. A successful business transaction will result in repeat business. Projected sales share in FY 2001: 35% Projected sales share in FY 2002: 55%

Hardwood lumber buyers: These are secondary wood users who process wood products for volume commodity markets of finished wood products. The final market of these products will not compete with our market share because we are targeting individual building decision makers. Our intention is to not compete with retail flooring outlets. We also will need this outlet for smaller sized logs that we can not justify cutting, but are important for the cooperative to collect from members' forest to assist their forest management. Projected sales share in FY 2001: 60% Projected sales share in FY 2002: 40%

Local homeowners, remodelers: These will be a small portion of our sales, but an important market to keep a strong connection on the local use of our products. This will also allow us to use these customers for research and development of new wood products. Projected sales share in FY 2001: 5% Projected sales share in FY 2002: 5%

Project Summary

The proposed project conducted marketing, sales research and customer education of certified sustainable wood products through the Sustainable Woods Cooperative (SWC). The information gathered and the future development of markets for these wood products will aid the cooperative in implementing its business strategy that will eventually accomplish the following:

- * enable farmers/landowners to realize a premium price for products developed from their forests;
- * create jobs locally through the operation of a sort yard and saw mill;
- * keep money in local communities;
- * produce healthy, well-balanced ecosystems.
- * Increase farmers/landowners investment confidence and commitment.

The proposal consists of three projects to develop marketing infrastructure and strategies:

1. Research the cost of processing, determine processing, marketing, sales and quality control steps, research the acceptance of certified wood by builders, research marketing plan for wood flooring, and research business transaction principles.
2. Research sales potential, competition and acceptance of certified wood products. This project will help determine the viability of direct sales of certified wood products including rough lumber, milled lumber, and other wood products, based on the results, a marketing plan will be developed for the best market options.
3. Research the industry's approach to communications, identify the best strategy and develop a communications plan to support the cooperative's development and the marketing plan and strategy.

Proposed and Expected Results of Research:

The following results were obtained:

1. *The identification and establishment of markets for certified wood product by:*
 - Identifying customers, pricing methods, processing operation and costs, and marketing strategies for the cooperative.
 - Determining the viability and marketing strategy of certified wood flooring.
 - Identifying the payment of the "value-added" element of certified wood that will be returned directly to the wood owner for financial gain or to offset forest management plans.
2. *Consumer education and development of business transactions will be created by:*
 - Defining business transaction principles for the sale and use of products to foster partnerships with "green building" alliances to promote certified products.

- Identifying strategies and ways to capitalize on consumer's interest in connecting to the forests and the broad range of environmental, ecological and economic benefits achievable through sustainable forestry and transform this market trend into more business for the cooperative.
3. *Identification of target markets, expected return on sales per target market and best marketing strategies to meet SWC's goals by:*
- Determining target markets that best help SWC meet its financial and institutional goals.
4. *Identify consumers' needs, expectations, perceptions and interest in SWC's work:*
- Developing communications approaches for a diverse audience, from final consumers, to trade partners, to cooperative members themselves to investors

A detailed description of the findings and marketing information of each result is listed in its individual chapter. This follows a description of the basic marketing strategy of SWC.

Because the cooperative was developing its operation while this project was underway, the research shifted from one of projecting costs/prices/returns for future operation, to one of expected results during our operation.

Marketing Strategy of SWC

Market Strategy Assumptions

The market for certified wood products is still in its infancy, thus the co-op will use certification as a market access strategy and strive to develop the market for certified wood over time.

SWC will start by manufacturing a few carefully chosen products and plan to increase its manufacturing and marketing activities over time as its capacity increases. It will concentrate on developing and marketing high value-added products from its low quality trees.

The co-op's greatest potential for generating a high value-added return will be through on-site retail sales and through the establishment of marketing relationships with local and regional architects, builders and secondary manufacturers.

Market Entry Strategy

SWC will enter the market by offering certified wood flooring, paneling, trim and lumber to specified target markets.

SWC's Market Strategy will be based on the following principles:

- Develop markets based on what the forest can produce.
- Concentrate on local customer first.
- Produce based on what can be sold.
- Develop consumer-oriented systems where consumers determine products, designs and specifications.
- Market its products with the purpose of generating a profit.
- Package/group its products for customer's convenience.
- Communicate to consumers how SWC's products meet their needs.
- Customer service will be a key component of the product.
- Customer's feedback will be used to develop and improve marketing systems and product research development.

Pricing Strategy

SWC will price its products based on a competitive strategy, but also will have the ability to extract additional returns within this strategy through the "certified wood" label. This will allow SWC to initially be a price follower, but through the identification of margins, will be able to be a price leader as FSC certification becomes more important in the market. This strategy has the potential of decreasing the pressure from non-certified competitors to lower prices and can encourage certified competitors to follow SWC's leadership in the region.

Result #1: Identify and establish markets for certified wood products.

The research collected information to determine these target markets, by priority and by expected volume of business.

Green Builders

Profile:

- Consist of designers, architects and contractors who specifically are doing green construction according to Green Build Home program requirements or industrial green building requirements.
- Specifically request certified wood.
- Price must be competitive, but because of volume and continuation of business, discounts are in order.
- Like to have input on wood varieties and finished wood options.
- Project sales range from \$5,000-\$20,000.
- Have strong preference for flooring and trim.
- Anticipated sales: \$200,000 annually.
- Products: flooring, paneling, trim.
- Market approach: direct mail, direct call.
- Market message: SWC is source for certified wood, quality product, flexible product.

Wood Users Directory

We have a directory of secondary wood users in Wisconsin that lists the following market prospects that we will, overtime, include in our target markets:

463	Cabinet and Cabinet Makers
93	Furniture Manufacturers
81	Furniture Designers and Custom Builders
1213	General Contractors
746	Handy Person Service (Suppliers to Do-It-Yourself Markets)
19	Hardwood flooring suppliers in the Madison area
2600	Building Contractors

Wisconsin Green Building Alliance Marketing Survey

A survey of members of the Wisconsin Green Building Alliance (comprised of residential and commercial architects, builders, contractors, and designers) helped us determine the marketing profile and position. The purpose of the survey was to test several major marketing questions:

- 1) Interest of using sustainable wood products
- 2) Identity preference on certified sustainable vs. local wood product label
- 3) Interest in types of wood products
- 4) Sales, product and marketing characteristics

Executive Summary of Findings

- 1) There is strong interest by the green building industry in using sustainable wood products.
- 2) SWC should concentrate its marketing efforts to green building industry.
- 3) Green building industry is more concerned about the environmental components than end users, so SWC needs to focus its marketing to builders and designers, instead of end users.
- 4) Respondents expressed the strongest interest in high quality products, mainly wood flooring, a product SWC should specialize in.

Detailed Summary of Findings

1) Interest in using sustainable wood products:

It appears there is strong interest in using sustainable wood products, but several indicated they were not aware of sources of sustainable wood products, until they heard from SWC. Because green builders are generally unaware of sources of sustainable wood products, there is a tremendous opportunity for SWC to educate them and direct them to eventual sales. SWC will also be looking to get a high profile construction project to test desired products and manufacturing of those products to specification.

Do you feel that "sustainable" wood products have a place in your building practices?

Yes	80%
No	20%

2) Identify preference on certified sustainable vs. local wood product label:

The respondents indicated a preference of the certified sustainable wood label, compared to local wood products. This would be consistent with their respondents ingrained desire for "green" construction, with the belief that "sustainable" means more for environmental protection than "local."

When considering green building practices, which of these two do you feel would have a stronger value to your customer?

Wood products from certified sustainable forests	60%
Wood products from local Wisconsin forests	30%

3) Interest in types of wood products:

SWC asked the preference in wood products it is likely to produce. Respondents expressed the strongest interest in wood flooring, a product SWC intends to specialize in. They also expressed strong interest in molding and architectural wood (wood for special uses). These products could be custom made on advance order.

On a scale of 1-10, 10 being the highest, rate your level of interest in using certified sustainable wood products in your design or construction.

Wood flooring	8.8
Wood paneling	6.1
Molding	8.5
Architectural wood	8.3
Construction/framing/a	
Interior doors/a	

4) Sales, product and marketing characteristics:

Not surprisingly, respondents listed quality as the most important characteristic of wood products preferred by customer, with a strong concern for price. Obviously SWC will have to produce a superior quality product, but will also have to be price competitive. There was less interest in the certified wood label to customers, indicating that we need to focus our marketing to builders and designers, instead of end users.

On a scale of 1-10, 10 being the highest, rate the level of interest your customers would have in wood products:

Lowest price	7.5
Quality	8.5
"Certified" wood label	6.5
Uniqueness of wood grain	5.5
Wood from local, or Wisconsin forests	5.1
Variety of wood species	5.3

Lumber Buyers

Profile:

- Seeks graded lumber, rough-green or kiln-dried.
- Wants to have a consistent supply, not just a spot sale.
- Prefers truckload shipments (over 15,000 bdft).
- Preference for oak and other hardwoods for milling and sales into wholesale/retail market.
- Seller has little opportunity to establish sale price. Prices are determined and bid by buyer.
- Anticipated sales: \$200,000 annually.
- Products: grade rough-green, or kiln-dried lumber.
- Market approach: direct call.
- Market message: SWC has consistent quality source.

Flooring Installers

Profile:

- Product must be consistent in quality.
- Product must be delivered to work site.
- Orders placed several weeks in advance of work, with amounts varying from 1,000-3,000 sqft.
- Like to see source of lumber before milling.
- Anticipated sales: \$50,000 annually.
- Products: flooring, paneling, trim.
- Market approach: direct mail, direct call.
- Market message: SWC is local source for wood, quality product, flexible product.

Home Owners

Profile:

- Do-it-yourself home owners buy wood products to carry out projects themselves or hire contractors to carry out the work.
- Products are designed to make repairs and remodeling of homes easier and more convenient.
- Have a need for specific products (flooring, trim, decking materials).
- Disposable income allows to purchase cash.
- Product or project's price is between \$1,000 and \$5,000.
- Customer is likely to buy finished product.
- Expects high quality, competitive pricing and on-time delivery of product.
- Anticipated sales: \$50,000 annually.
- Products: flooring, paneling, kiln-dried lumber.
- Market approach: SWC members, local ads.
- Market message: SWC is local source for certified wood, quality product, flexible product.

SWC Marketing/Communications – Draft for Review and Improvem

Target	Main Message	Sept.	Oct.	Nov.
"Co-op Members" <ul style="list-style-type: none"> Member Harvest plan Purchaser Sales agent/promoter 	<i>Let 'em know where we're at and exactly how they can participate</i>	<ul style="list-style-type: none"> Monthly update ... mailed 15th of each month 	<ul style="list-style-type: none"> Monthly update 	<ul style="list-style-type: none"> Mon update
"Believed Interested" <ul style="list-style-type: none"> Attended seminars, info sessions. Green Builders Nature Conservancy Wis Woodlands Owners Baraboo Range Preservation Ass., Blue Mounds Project. 	<i>"We're here. We're doing it. You can too."</i> <i>Aim here is win-win, w/SWC able to serve their members' wood harvesting needs &/or their customer needs</i>	<ul style="list-style-type: none"> Survey of Green Builders' needs. Gather lists for mailings 	<ul style="list-style-type: none"> October mailing to all possible prospects. 	
General in Region <ul style="list-style-type: none"> News articles in region. Yellow pages. Walk-ins. Ads in Spring Green region, and in Madison region Fairs, etc. 	<i>"We're here, by golly! ... a real chance to do well by the planet and help area economy."</i>	<ul style="list-style-type: none"> Ads-Spring Green area 	<ul style="list-style-type: none"> Ads – Madison area 	<ul style="list-style-type: none"> Ads Spring Gr area.
Common Themes in Materials:	<ul style="list-style-type: none"> SWC story Similar look & feel Locator map & how to contact How to be involved at many levels ... as a consumer, as a land-owner, as an advocate informing neighbors 		Materials Needed:	<ul style="list-style-type: none"> Simple products Standards Regulations w/available How

Result #2. Develop consumer education and business transactions.

SWC developed this model for Business Transactions with SWC Customers, which is an initial framework for discussions with customers of the SWC to advance the marketing and sales, but also the understanding and support of sustainable forestry.

This approach to sustainable business transactions is in its formative stages and focuses on three important dimensions of exchange between the Sustainable Woods Cooperative and our customers:

- Product qualities,
- Fair monetary payment, and
- Ongoing relationships.

What the SWC Provides/Exchanges:

1) *High Quality Wood Products*...Two Important Dimensions of Quality:

A) Physical qualities/characteristics, e.g., properly dried, unstressed, straight, tight knots, and guarantees regarding quality of SWC products.

B) Environmental & socio-economic qualities associated with the wood products, e.g., sustainable forest management, fair returns to woodland owners & fair wages to employees of the co-op, local economic development, etc.

2) *Honest Accounting of Costs & Clear Explanations of the Added Margin Providing Monetary Returns to the Woodland Owner and to the Co-op*

A) Document costs of producing wood products.

B) Explain return to the woodland owner & co-op thorough an analysis of economic costs and management responsibilities that woodland owners shoulder and the cooperative assumes in the production of the wood products

C) Discussions/negotiations with customers based on honest sharing of economic needs and resources.

3) *Options for Ongoing Relationships*

A) SWC offers to customers regularly updated information on SWC products, SWC operations; opportunities to visit SWC operations, and educational events.

What the Customer Provides/Exchanges

1) *High Quality Use of the SWC-Produced Wood Products*

- A) Physical Qualities/Characteristics through appropriate use and high quality installation of purchased products.
- B) Word-of-mouth promotion of SWC products with discussion of environmental & socio-economic qualities provided by the cooperative.

2) Options for Ongoing Relationships

- A) Option to pick up on offers from the SWC and the woodland owners.
- B) Reciprocal offer from customer to share information and educational events with SWC members.

Result #3: Identify target markets, expected return on sales per target market and best marketing strategies to meet SWC's goals.

The research examined the projected costs of logs, capitalization and operation to determine the pricing of SWC products, and expected return on sales. Through this analysis SWC was able to develop a product and price list with adequate margins for long-term success, contingent on successful marketing.

The margins in short-term will cover capitalization costs, and in subsequent years, will be used to return patronage or surplus to landowner-members.

SWC contracted with Chuck Ouimette, president of Custom Wood Products, Hazelhurst, and a professional with a strong background in the timber and wood products industry. Chuck has developed an operational plan, including an inventory tracking system, which allowed SWC to determine its costs, selling prices and then margins.

SWC also utilized two staff people, Andy Remington and Diane Hughes to research competitive pricing, do bookkeeping, and publish the initial product and price list. Tom Thieding also assisted in coordinating and assembling information.

Summary of Research Findings

1. SWC was able to establish a price list that contains adequate margins for long-term operation.
2. Value-added processing and sales of wood products by wood cooperatives is the key to capitalizing an operation, and developing adequate returns to provide landowners with premiums/profits from the processing and sale of wood through a cooperative structure.
3. Commodity sales of lumber by wood cooperatives will generate cash-flow, but will not fully capture additional margins to meet a goal of increase payments to landowners for logs.
4. The value of wood and margin increases dramatically if sawed lumber can be dried and then sold. That step, at a minimum, helps achieve improved cash flow, and profitable returns.
5. Selling kiln-dried lumber, at a minimum, dramatically increases the margin and value of wood.
6. Effective marketing and sales will still be the key to the success of wood cooperative.

Description of Product Pricing Analysis

Two scenarios were developed to research the costs of operation and also demonstrate the potential differences between two different operational modes. Those scenarios were:

- In-house sawing and kiln drying and outside contract milling.
- All sawing, drying and milling done in-house.

Costs Factors Used in Analysis

- The fixed costs used in the analysis showed a cost of \$.27/bdft for sawing. This is the actual cost of SWC for a contract sawyer.
- The kiln drying cost of \$.15/bdft is the actual cost of SWC for drying in its solar kiln. Contract milling of \$1.00/bdft is the cost of having a custom miller mold finished products.
- The operational/overhead cost is higher in the in-house scenario from capitalization of equipment.
- Log costs are average costs of logs by species, with average grade.

Comparisons of Scenarios

- The cost to process in-house is as much as 46% less than the cost to process using contract milling.
- Margins for finished products through the in-house scenario such as paneling and flooring are, on average, 50% more than the contract milling scenario.
- Simply by kiln-drying lumber, the margins or lumber double for most species as compared to selling rough-green lumber.
- Margins for the contract milling scenario on rough-green and rough kiln-dried are higher because of higher overhead costs connected to capitalize the milling component of the operation.

"ADD" GRANT PROJECT ANALYSIS **CONTRACT MILLING SCENARIO**

<u>FIXED COSTS</u>	<u>\$/MBF</u>	<u>\$/BF</u>	<u>DESCRIPTION / COMMENTS</u>
SAWING:	\$270	\$0.27	SAWING & BLADES & FUEL
KILN DRYING:	\$150	\$0.15	
MILLING:	\$1,000	\$1.00	(AVERAGE OF 3" WIDE MATERIAL
TRANSPORTATION:	\$60	\$0.06	TO AND FROM CONTRACT MILL SITE
MISCELLANEOUS:	<u>\$161</u>	<u>\$0.16</u>	CURRENT OVERHEAD & SUPPORT
TOTAL PRICE TO PROCESS:	\$1,641	\$1.64	

SPECIES	DELIVERED LOG COST (/MBF)	"ROUGH GREEN"			"ROUGH KILN DRIED"		
		SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN	SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN
ASPEN	\$165	\$780	\$184	23.6%	\$1,060	\$314	29.6%
CHERRY	\$508	\$900	-\$39	-4.3%	\$1,800	\$711	39.5%
RED OAK	\$504	\$1,070	\$135	12.6%	\$2,140	\$1,055	49.3%
WHITE OAK	\$353	\$900	\$116	12.9%	\$1,800	\$866	48.1%
BLACK WALNUT	\$432	\$1,100	\$237	21.5%	\$2,200	\$1,187	54.0%
ALL SPECIES	\$387	\$676	-\$142	-21.0%	\$1,667	\$699	41.9%

SPECIES	DELIVERED LOG COST (/MBF)	PANELING			FLOORING		
		SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN	SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN
ASPEN	\$165	\$2,320	\$514	22.2%	\$2,530	\$724	28.6%
CHERRY	\$508	\$3,140	\$991	31.6%	\$3,280	\$1,131	34.5%
RED OAK	\$504	\$3,510	\$1,365	38.9%	\$3,830	\$1,685	44.0%
WHITE OAK	\$353	\$3,140	\$1,146	36.5%	\$3,420	\$1,426	41.7%
BLACK WALNUT	\$432	\$3,580	\$1,507	42.1%	\$3,900	\$1,827	46.8%
ALL SPECIES	\$387	\$2,888	\$860	29.8%	\$3,088	\$1,060	34.3%

ALL SELLING PRICES ARE "SWC RETAIL".

"IN-HOUSE" MILLING SCENARIO

<u>FIXED COSTS</u>	<u>\$/MBF</u>	<u>\$/BF</u>	<u>DESCRIPTION / COMMENTS</u>
SAWING:	\$270	\$0.27	SAWING & BLADES & FUEL
KILN DRYING:	\$150	\$0.15	
MILLING:	\$140	\$0.14	(AVERAGE OF 3" WIDE MATERIAL
TRANSPORTATION:	\$0	\$0.00	TO AND FROM CONTRACT MILL SITE
MISCELLANEOUS:	<u>\$300</u>	<u>\$0.30</u>	"FULL" OPERATIONAL OVERHEAD & SUPPORT
TOTAL PRICE TO PROCESS:	\$860	\$0.86	

SPECIES	DELIVERED LOG COST (/MBF)	"ROUGH GREEN"			"ROUGH KILN DRIED"		
		SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN	SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN
ASPEN	\$165	\$780	\$45	5.8%	\$1,060	\$175	16.5%
CHERRY	\$508	\$900	-\$178	-19.8%	\$1,800	\$572	31.8%
RED OAK	\$504	\$1,070	-\$4	-0.4%	\$2,140	\$916	42.8%
WHITE OAK	\$353	\$900	-\$23	-2.6%	\$1,800	\$727	40.4%
BLACK WALNUT	\$432	\$1,100	\$98	8.9%	\$2,200	\$1,048	47.6%
ALL SPECIES	\$387	\$676	-\$281	-41.6%	\$1,667	\$560	33.6%

SPECIES	DELIVERED LOG COST (/MBF)	PANELING			FLOORING		
		SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN	SELLING PRICE (/MBF)	PROFIT MARGIN (/MBF)	% PROFIT MARGIN
ASPEN	\$165	\$2,320	\$1,295	55.8%	\$2,530	\$1,505	59.5%
CHERRY	\$508	\$3,140	\$1,772	56.4%	\$3,280	\$1,912	58.3%
RED OAK	\$504	\$3,510	\$2,146	61.1%	\$3,830	\$2,466	64.4%
WHITE OAK	\$353	\$3,140	\$1,927	61.4%	\$3,420	\$2,207	64.5%
BLACK WALNUT	\$432	\$3,580	\$2,288	63.9%	\$3,900	\$2,608	66.9%
ALL SPECIES	\$387	\$2,107	\$860	40.8%	\$2,307	\$1,060	45.9%

ALL SELLING PRICES ARE "SWC RETAIL".

MILLING DONE IN-HOUSE (NO TRANSPORTATION).

Result #4: Identify consumers' needs, expectations, perceptions and interest in SWC's work through a communications.

The effort of the SWC board members and consultants developed communications materials aimed at a diverse audience from final consumers, to trade partners, to cooperative members themselves to investors.

SWC completed the following communications information that has been and will be used in its marketing, promotion and education:

Media Kit

This Media Kit contains basic information on the SWC, sustainable forestry, and

Web Site

A web site: www.sustainablewoods.com was developed and launched in June, 2000, to secure a position on the internet for e-commerce. The web site will be modified to include pricing information and on-line ordering.

Green Building Marketing Information

A basic marketing contact kit was assembled to make initial contact with green builders and introduce them to SWC as a source of certified wood. Because the green builders are a key market, SWC will continue to update its information and regularity of communication and marketing.

Display

In order to have a physical promotion presence at trade shows, SWC purchased a developed an eight-foot floor display. This display was used initially at the Greening of Wisconsin conference in April, 2000, and was successful in attracting attention and communicating the message of SWC and certified wood to potential green builders.

Activities, events of public promotion

Woodland School Sponsor, 1999 and 2000 (tours)
Value Added Conference, Eau Claire, February, 2000 (trade show participant and speaker)
Wisconsin Green Building Conference, Waukesha March, 2000 (trade show participant)
Prairie Enthusiasts Conference, Madison, April 2000 (trade show participant and speaker)
Nature Conservancy Tour, April 2000 (tour)
Dane County Cooperative League, June, 2000 (speaker)
SWC Open House, June 2000 (tour)
Forest Owner Cooperation Conference, October, 2000 (tour and speaker)

Media Coverage

Wisconsin State Journal, Jan. 2000
The Country Today, Aug. 2000
Agri View, Sept. 2000
As well as local news coverage of the grand opening from SWC release.

Description of Research Conducted

Prairie Crossing Pilot Project

This pilot project allowed SWC to determine some basic costs associated with wood pricing, milling of finished product, and final pricing with Prairie Crossing, an eco-community near Grays Lake, Illinois. The builder and marketing staff provided excellent insight into the procedure of bidding for projects and basic marketing ideas for customers who would be homeowners.

Because this project was conducted in the early stages of SWC's operation when it did not have its own facility, operations or wood, the information collected was modified as SWC further developed its business operation. It was extremely useful to test our ability to work with a decision maker, contract services and products for a project, delivery the project, and ultimately determine SWC prices and margins.

Market Research

Information on certified wood market research was provided by Reginaldo Haslett-Marroquin, Marketing Director, Forest Cooperative Resource Center. This research provided the marketing framework for SWC to follow, and established following basic questions to ask potential customers and competitors. Because of the proprietary nature of the information, we selected to include summaries in our findings. These will be ongoing marketing questions of SWC.

- Species, grade, and quantities purchased.
- Minimum and maximum amounts per order.
- How important is price versus quality and service?
- Would you prefer to pay shipping costs or pick products up?
- Who are your primary customers?
- How important (or do you foresee being) FSC certification for marketing your final product(s)?
- How important is it to you or your customers to know where the wood comes from?
- Do you think that communicating to all of your customers that you are using certified wood could hurt or help your business?

SWC contracted Ellen Rulseh, a private communications and marketing consultant to interview potential customers and do basic market overview. This work failed to provide precise marketing information.

SWC utilized Orion Advertising and Marketing, Madison, to use its connection with Madison area home builders to conduct additional customer analysis. They interviewed several businesses that provided solid marketing and production information.

Summaries of research have been documented in previously submitted reports.

Product and Price Analysis

SWC utilized Chuck Ouimette, President of Custom Wood Products, to conduct the product and price analysis. Mr. Ouimette's work, along with support for Andy Remington and Diane Hughes, produced the final product and price list for SWC products, established an operational and marketing plan, and determined margins on SWC products.

The marketing survey conducted with members of the Wisconsin Green Building Alliance was conducted by Tom Thieding, with assistance from Orion Advertising and Marketing. Mr. Thieding also analyzed the research and compiled the findings for reporting to WDATCP.

Fiscal Summary

Approved Budget

	<u>Requested</u>	<u>Utilized</u>	<u>Match</u>
Salary and Wages	\$0	\$0	\$4000
Fringe Benefits	\$0		SWC operations
Consultant Services	\$9000	\$8913.50	\$4000
(Contracted with Orion Advertising and Marketing, Ellen Rulseh, and Chuck Ouimette to conduct local market research, develop marketing strategy recommendations, examine the viability of sales of wood flooring project, and develop communications plan. Utilized Tom Thieding for WGBA survey and project analysis)			
Travel	\$960.00	\$594.01	
(Travel reimbursement for project consultants)			
Telephone	\$800	\$0	SWC operations
Equipment	\$0	\$0	SWC operations
Supplies and Materials	\$2470	\$2235.00	
(Purchased 1300 sq. feet at \$.95 sq. ft. of SmartWood certified timber from Timbergreen Forestry, Spring Green, for milling into wood floors for Prairie Crossing pilot project)			
Subcontractors	\$8550		
<u>Milling</u>	\$4800	\$2977.50	
(Paid for milling of lumber into strip flooring for Prairie Crossing pilot project)			
<u>Product and Price Identification Research</u>	\$24000	\$2167.10	\$2000
(Conducted competitive price analysis, cost analysis from pilot project, established pricing structure)			
<u>Transportation</u>	\$850	\$810.00	
(Shipped finished wood flooring to Prairie Crossing)			
<u>Bookkeeping/Clerical/Accounting</u>	\$500	\$432	
(Bookkeeping and clerical work on project reports)			
Data Processing	\$0		
Public Information			
Design/develop materials	\$3000	\$2107.75	\$1000
(Designed brochures, media kit, and display)			
Print/distribute materials	\$2000	\$1817.60	
(Purchased display unit, printed Media Kits, printing display information)			
Other	\$0	\$0	
Total	\$26,780	\$22,054.46	

*SWC contributed an underdetermined amount, in excess of \$10,000, based on volunteer time of board of directors, and staff and operational costs that were not minutely recorded.

National Market Analysis of Certified Wood Products

The market for certified forest products is clearly in its infancy, representing a small niche market in the overall U.S. marketplace for forest products. In fact, certified wood products have existed as a distinct market only for the last five years. Partly because the industry is so young, it is not possible to obtain sales data on certified forest products. Most observers indicate that they see the market for such products growing, although they are unable to quantify the current growth rate. The industry simply has not been around long enough to accurately assess its potential (Source: Certified Forest Product Council).

Another reason for difficulty in obtaining information about, and estimating demand for, certified wood products is the fragmented nature of the forest products industry. Millions of end-users but an incredible wide variety of products.

Only 0.7% of U.S. forest land is currently certified, less in Wisconsin, although the number of certified acres more than doubled in 1997. The amount of certified product that currently moves through the marketplace is unknown. Most certified wood is sold as uncertified product through the mainstream market at this time, due to lack of proper supply, lack of delivery and distribution infrastructure and lack of organization of supply of adequate volumes of at the national and regional level. Because of this factor, the Certified Forest Products Council has allocated a \$1.5 million budget to the development of marketing schemes and markets. SWC can greatly benefit from the investments of the certification agencies if properly positioned to ride on the national drive to push certified produced in the market.

Numerous studies show that in the U.S. a significant percentage of consumers prefer forest products that have been produced in an environmentally responsible way. A report by the Sustainable Forestry Working Group, *Marketing Products from Sustainably Managed Forests: An Emerging Opportunity*, indicates that the question is not whether, but "how fast and in which markets sustainable forest management will become an important market variable." Some studies show a willingness among consumer to pay more for certified wood products (although other evidence indicates that few customers actually do so. (Source: Cooperative Development Services)

Because the industry is so young and the concept of certification not yet widely know, marketers caution against expecting it to pay off in the near future. Most seem to regard certification as a long-term investment– which they are willing to make in order to promote sustainable forestry– rather than as a way to obtain a financial return in the near term.

The financial, operation and marketing goals of SWC recognize the challenges to this new opportunity and are committed to serving woodland owners for many years to come.

Marketing of certified-sustainable wood products does not exist in Wisconsin. This is an entirely new opportunity in an untested and unknown market.

North American Forests: Consumers' Perceptions and Willingness to Pay

Ms. Dawn Winterhalter & Dr. Daniel Cassens, Purdue University

IS THE MARKETPLACE READY FOR CERTIFIED SUSTAINABLE WOODS PRODUCTS?

Three marketing related issues applicable to residential consumers will be summarized in the following pages.

1. Is there a need for a product which makes claims related to the sustainability of forests? This would indicate that consumers have a level of concern related to the sustainability of forests. Does this concern exist for residential consumers?
2. How important are labels and other sources of information to residential consumers when they are seeking environmental information? In what sources of information do they place the most trust?
3. Are consumers that are environmentally concerned willing to pay more for environmentally safe products, including certified sustainable wood products?

ENVIRONMENTAL AND FOREST SUSTAINABILITY CONCERNS OF RESIDENTIAL CONSUMERS

ISSUE: Have consumers changed their purchasing behaviors due to concerns about the environment?

- 67% of those polled have boycotted or avoided a product due to environmental concerns. (Purdue study)
- 61% of those polled have not bought a particular brand or product due to environmental concerns. (Consumer Solid Waste survey)
- 69% of those polled have not bought a particular brand or product due to environmental concerns. (The Good Housekeeping survey)

ISSUE: What are the perceptions of residential consumers' when questioned about the sustainability of North American forests? (all responses from Purdue study)

- 89% disagreed with the statement that "all private and public forests are using sustainable forestry practices."
- 29% of those polled felt that "most forest lands are being sustainably managed."
- 68% felt that "very few forested lands are being sustainably managed."

WHAT ARE CONSUMERS' ATTITUDES ABOUT ENVIRONMENTAL LABELING?

ISSUE: How important is environmental information on packaging? (all responses from Consumer Solid Waste survey)

- 72% felt that it is extremely/very important that environmental information should be on packaging.
- 85% felt that too little information is available on packaging.
- 15% felt that the information on packaging is extremely/very believable.

ISSUE: In what sources of information do consumers place their trust when making a purchasing decision? Consumers were asked to rate the following items on a scale from 1 through 5, with 1 being “little or no interest” and 5 meaning “great deal of trust”. Percentages reflect opinions of consumers responding with 3, 4 or 5 score. (all responses Purdue study)

- 94% placed a great deal of trust in a label or stamp.
- 73% placed a great deal of trust in brochures.
- 59% placed a great deal of trust in magazine.
- 61% placed a great deal of trust in sales tags.
- 16% placed a great deal of trust in sales people.

ISSUE: What characteristics would consumers use to define a label that claimed: “This product comes from a sustainably managed resource?”

- 91% felt that considering harvesting effects on soil, water, and wildlife is a part of sustainable management.
- 82% felt that tree farms were considered sustainable management.
- 98% felt that sustainable management includes planting one or more trees after harvesting one tree.
- 47% felt that natural regeneration is an aspect of sustainable management.
- 65% felt that sustainable management would balance the needs of people who rely on the forest for their livelihood with environmental concerns.
- 63% felt that aesthetics should be balanced with economics.
- 95% agreed that periodic harvesting of selected trees was acceptable sustainable management.
- 67% felt that clearing trees for special purposes (hiking trails, nature centers, etc.) was an acceptable form of sustainable management.

ARE ENVIRONMENTAL CONCERNED CONSUMERS WILLING TO PAY MORE?

ISSUE: Are consumers willing to pay more for a wood product that can verify sustainable wood resources for construction materials (all responses from Purdue study)

Consumers were asked if they agreed or disagreed with the statement “I would be willing to pay more for furniture whose construction originated from a sustainable managed North American forest.” Of those that agreed (68% of those polled agreed):

- 23% would pay 1-5% more.
- 34% would pay 6-10% more.
- 16% would pay 11-15% more.
- 6% would pay 16-20% more
- 3% would pay more than 20%

For more information contact: Dawn Winterhalter , Purdue Unverisity, Department of Forestry and Natural Resources, 1200 Forest Products Building, West Lafayette, IN 47907-1200, (317) 494-6814

Background on SWC

The SWC was formed in 1998, with a board of directors elected selected in the fall. Since then, the cooperative has developed a business start-up strategy

As of September, 2000, 120 SWC members have made \$155,000 investment in the cooperative through required Acreage Stock, Market Stock, or loans.

SWC purchased 4.5 acres of land in October 1999 in the Village of Lone Rock industrial park for our sawing and milling operation. A \$40,000 TIF from the village was provided with the agreement to add \$250,000 of improvements to the property. In May SWC established an office located across the road from the kiln and saw operation.

A \$65,000 solar kiln was constructed in the fall of 1999, and the third batch of wood is being dried. As of September 25, SWC has sawed 115,000 bd. ft. of wood by a contract sawyer, and has dried 25,000 bd. ft. of wood. We have sales over \$50,000 from June to October. The cooperative has started some retail sales, and is developing a commodity sales system to generate cash flow and to process inventory with the expectation of ramping-up the operation in FY 2001 to fully implement its targeted marketing plan and operation plan.

SWC is seeking \$557,000 in commercial capital in FY 2001 to build infrastructure and finance start-up operations. The SWC business plan in FY 2001 is to develop the full operation of the cooperative, consisting of a wood drying facility with contract sawing and milling of 500,000 bd ft of members' wood. This will require funds for the following:

- Construct a 36' x 80' building to house kilns and wood processing operations
- Add three dehumidification kilns
- Purchase saw mill, rip saws, straight line saws and molding equipment
- Hire General Manager
- Hire Marketing Manager
- Hire 2 additional full-time mill assistants
- Expand, on a wholesale basis, sales of rough-green and kiln-dried lumber.
- Expand, on a retail basis, sales of lumber and processed wood products to do-it-yourselfers, woodworkers, hobbyists, designers, builders, and others
- Develop ecological and forest management education programs

Research Consultants/Support:

Tom Thieding - President, Sustainable Woods Cooperative, 6325 Briarcliff Ln, Middleton, WI 53562, (608) 828-5709. Coordinated research project, conducted marketing research, and authored final report.

Steve Stevenson – Former Board member, Sustainable Woods Cooperative, 1915 Adams St. Madison, WI 53711, (608) 256-5847. Provided ideas on consumer education and business transactions.

Warren Gaskill – Board member, Sustainable Woods Cooperative. 10405 Bell Rd., Black Earth, WI 53515, (608) 767-3642. Provided research analysis and commentary.

Chuck Ouimette – President Custom Wood Products, 5096 Willow Dam Road, Hazelhurst, WI 54531, (715) 453-2577. Developed operations plan for the cooperative and researched and established product pricing and margins.

Andy Remington – Sales Assistant, Sustainable Woods Cooperative, PO Box 307, Lone Rock, WI 53556, (608) 583-7100.

Diane Hughes – Business Manager, Sustainable Woods Cooperative, PO Box 307, Lone Rock, WI 53556, (608) 583-7100. Conducted competitive pricing research, tabulated pricing sheet, and provided bookkeeping services.

Kim Rozem, Wayne Glowac– Orion Advertising and Marketing, Madison, WI (608) . Developed and printed media kits. Conducted market interviews.

Ellen Rulseh, 2102 Linden Avenue, Madison, WI 53704, (608) 240-9424. Conducted market and customer interviews.

Michael Whaley--Just Words, PO Box 153, Spring Green, WI 53588, (608) 588-2048. Provided communications design and publication services.

Kent Prather– Former Board Member, Sustainable Woods Cooperative, Spring Green, WI 53588, (608) 588-7778. Provided project coordination and research commentary.

Jim Birkemeier– Timbergreen Forestry, S11463 Soeldner Road, Spring Green, WI 53588, (608) 588-7342. Assisted in pilot project and coordinated processing of wood products.

Mike Alexander– Board Member, Sustainable Woods Cooperative, 4620A Dawn Rd., Plain, WI 53577, (608) 546-6683. Provided design and processing assistance and project coordination for pilot project.

Reginaldo Haslett-Marroquin, Marketing Director, Forest Cooperative Resource Center, 2105 First Avenue South Minneapolis, MN 55404, (612) 870-3459. Provided framework of market research.

E.G. Nadeau - Cooperative Development Services, 30 W. Mifflin St., Madison, WI 53703, (608) 258-4393. Collected research on national certified wood markets.